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COMPTROLLER LEMBO PROJECTS $180.6 MILLION SURPLUS, CITES ECONOMIC BENEFITS OF FEDERAL RELIEF

Comptroller Kevin Lembo today, in his monthly financial and economic update, projected a General Fund surplus of $180.6 million for FY 2021, citing recent economic improvements owed to federal relief efforts and continued mass vaccinations.

Connecticut’s economy has been gradually improving in recent months primarily due to a thriving housing market and strong performances in the stock market. Recent federal stimulus efforts, and the continued rollout of vaccinations, have aided the state’s recovery. Connecticut’s Gross Domestic Product (GDP) grew by a seven percent annual rate in the fourth quarter of 2020, the fourth-highest in the nation and the highest in the northeast.

While Connecticut is experiencing modest job growth and an increase in consumer spending, the greatest benefits of the economic recovery are still concentrated in high-wage sectors and are not reaching everyone equally.

“As our state’s economy continues its recovery, we continue to see a pattern of uneven economic growth,” Lembo said. “Lower- and middle-class families, especially those who are unemployed or work in lower-income jobs continue to face hardships that require aggressive intervention. While the recent federal economic package delivered much-needed relief for our state and individuals, we must stay vigilant and be proactive to ensure that those most affected by the pandemic don’t continue to get left behind.”

Lembo noted the average sale price of single-family homes has increased 50 percent from this time last year with the average sale price in Connecticut now topping $500,000. Meanwhile, the state has only recovered 60 percent of the jobs lost during the pandemic, many of which were held by workers in low-wage industries, particularly in the leisure and hospitality sector.

The most recent surplus estimate, an increase of $49.2 million from last month’s projection, is largely attributable to improved revenues, including from the Real Estate Conveyance tax and the Corporation tax. The Pass-through Entity tax (PET), which is currently running well ahead of
projected budget targets, was revised upward by $200 million this month. The PET is subject to the state’s revenue volatility cap and would increase the transfer to the Budget Reserve Fund (“Rainy Day Fund”) which is now projected to total $555.1. Because the fund has currently exceeded its 15 percent cap, by law any excess balance would be contributed towards unfunded pension liabilities, saving taxpayers money in this biennium and into the future.

On Wednesday, Moody's Investor Services improved Connecticut’s bond rating for the first time in more than 20 years, citing the strength of the state’s Rainy Day Fund as a primary reason.

“The measures put in place to grow the state’s reserves have been remarkably successful and will result in huge savings for taxpayers in future years,” said Lembo. “The bond rating increase is the deserved reward for several years of fiscal discipline and building the Rainy Day Fund to a record-high balance. I’m grateful that ratings agencies are now recognizing those efforts with improved bond ratings. The result will be long-term savings and relief for Connecticut taxpayers. Our state has made great strides in managing and reducing the legacy costs burdening future generations. The bond ratings increase is another critical step in building a better economy for our kids and grandkids.”

In a letter to Gov. Ned Lamont, Lembo noted that May income tax receipts will be a key indicator in Connecticut's continued recovery and will add more clarity to the state’s revenue picture as budget negotiations take place.

Lembo pointed to recent economic indicators and trends from national and state sources that show:

**NOTE:** Economic indicators largely look back to past periods. Therefore, some of the information presented this month may appear inconsistent with more recent developments in the rapidly changing response to the COVID-19 pandemic.

**Employment and Withholding Receipts**

The withholding portion of the income tax is the largest single General Fund revenue source. Final results for FY 2020 showed withholding receipts came in 2.2 percent above FY 2019 levels, but somewhat below the growth rate built into the FY 2020 budget plan. Current collection trends for FY 2021 through February show withholding receipts growing by 2.4 percent above FY 2020 levels, an improvement over last month. These results are in line with growth rates needed to meet the current revenue projection for withholding included in the January 15 consensus revenue forecast reached by the Office of Policy and Management (OPM) and the Office of Fiscal Analysis (OFA).
COVID-19 Job Losses

Throughout February and into March, the nation continued seeing high levels of initial unemployment insurance (UI) claims, although there were improvements in the most recent report. For the week ending March 20th, the U.S. Bureau of Labor Statistics (BLS) reported that seasonally adjusted initial claims totaled 684,000. While still very high by historical standards, this represent a decrease of 97,000 from the previous week's revised level of 781,000 and was the lowest since March 14, 2020, just before the pandemic shutdowns began. The BLS graph below shows the pattern, comparing the last year to the current year. The prior year’s results are represented by the blue dashed line while the current year is shown as a solid red line.

Economists continue to watch the labor market closely for signs of recovery as vaccination efforts ramp up and additional government stimulus funding is released.
In the same release, BLS reported the total receiving unemployment benefits was approximately 18.9 million for the week ending March 6th, up from 18.2 million the previous week. While this data lags the initial UI claims by two weeks and may show similar improvement in the future, it still indicates serious, ongoing struggles with unemployment for a significant portion of the population. The corresponding figure for the prior year was 2.0 million. As the chart below notes – the total reported does not represent unique individuals, rather the number collecting from all programs.
Connecticut Jobs Picture – New Year Rebound After Job Losses in Late 2020

After Connecticut experienced historic levels of employment losses this March and April, the state began regaining jobs over the following six months. Later in the year, the employment recovery stalled as coronavirus infection rates rose. More recently new information released by the Connecticut Department of Labor (DOL) indicates the trend is starting to move in a better direction in the early months of 2021.

On March 25th DOL reported the preliminary Connecticut nonfarm job estimates for February 2021 from the business payroll survey administered by the U.S. Bureau of Labor Statistics (BLS). DOL’s Labor Situation report showed the state gained 3,000 net jobs (0.2%) in February to a level of 1,574,800 jobs seasonally adjusted. At the same time, the preliminary January 2021 job loss estimate of 100 was revised to a gain of 1,000 jobs.

Connecticut’s total payroll employment is now 121,500 positions below where it was a year ago, representing a decrease of 7.2 percent. The state has now recovered 170,900 of the 292,400 (or 58.4%) of the jobs lost in March and April 2020 due to the COVID-19 lockdown.

Connecticut’s official unemployment rate stood at 8.5 percent in February 2021, up from 8.1 percent a month earlier and significantly higher than the 3.7 percent pre-pandemic rate a year ago. The U.S. jobless rate in February was 6.2 percent, down one-tenth of a point from the previous month, but up from the 3.5 percent rate in February 2020.

Among the major job sectors listed below, all ten experienced losses in February 2021 versus February 2020 levels. The leisure & hospitality sector remains particularly hard hit, losing nearly one-fourth of its jobs for the period, followed by the other services and the information sectors.

<table>
<thead>
<tr>
<th>Payroll Employment Trend</th>
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</thead>
<tbody>
<tr>
<td><strong>February 2021 Versus February 2020</strong></td>
</tr>
<tr>
<td><strong>Sector</strong></td>
</tr>
<tr>
<td>Construction and Mining</td>
</tr>
<tr>
<td>Manufacturing</td>
</tr>
<tr>
<td>Trade, Transportation &amp; Utilities</td>
</tr>
<tr>
<td>Information</td>
</tr>
<tr>
<td>Financial Activities</td>
</tr>
<tr>
<td>Professional &amp; Business Services</td>
</tr>
<tr>
<td>Education &amp; Health Services</td>
</tr>
<tr>
<td>Leisure &amp; Hospitality</td>
</tr>
<tr>
<td>Other Services</td>
</tr>
<tr>
<td>Government</td>
</tr>
<tr>
<td><strong>Total Connecticut Non-Farm Employment</strong></td>
</tr>
</tbody>
</table>

Source: Connecticut Department of Labor
Income and Salary

February 2021 average hourly earnings at $33.68, not seasonally adjusted, were lower by $0.11 (0.03%) from the February 2020 estimate ($33.79). The resultant average private sector weekly pay came in at $1,138.38, down a slight $0.38 from a year ago. DOL notes that the reemployment of workers in lower paid recovering industries has tempered some recent higher wage growth in other sectors. Due to fluctuating sample responses, DOL warns that private sector earnings and hours estimates can be volatile from month-to-month.

The 12-month percent change in the Consumer Price Index for All Urban Consumers (CPI-U, U.S. City Average, not seasonally adjusted) in February 2021 was a modest 1.7 percent.

Housing

Continuing a trend from recent months, Berkshire Hathaway HomeServices reported another month of strong results for the Connecticut housing market in February 2021 compared with February 2020. Sales of single-family homes grew 15.48 percent, with the median sale price increasing by 29.50 percent. New listings were down 31.50 percent this February versus last year, but the median list price was up 29.44 percent, which may indicate the lack of new inventory is helping to drive prices higher. At the same time, the average sales price is up 50.29 percent pointing to a very strong market for higher priced homes. Average days on the market decreased 31.18 percent in February 2021 compared to the same month in the previous year (64 days on average
compared with 93 in February 2020). Finally, sales prices continue to approach the asking price for single family homes with the sales to list price ratio of 99.4 percent.

The table below contains more detailed data for the Connecticut housing market.

<table>
<thead>
<tr>
<th>Market Summary</th>
<th>Month to Date</th>
<th>Year to Date</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>February 2021</td>
<td>February 2020</td>
</tr>
<tr>
<td>New Listings</td>
<td>2087</td>
<td>4098</td>
</tr>
<tr>
<td>Sold Listings</td>
<td>2268</td>
<td>1964</td>
</tr>
<tr>
<td>Median Listing Price</td>
<td>$324,900</td>
<td>$251,000</td>
</tr>
<tr>
<td>Median Selling Price</td>
<td>$323,760</td>
<td>$260,000</td>
</tr>
<tr>
<td>Median Days on Market</td>
<td>45</td>
<td>70</td>
</tr>
<tr>
<td>Average Listing Price</td>
<td>$534,588</td>
<td>$362,717</td>
</tr>
<tr>
<td>Average Selling Price</td>
<td>$523,616</td>
<td>$348,488</td>
</tr>
<tr>
<td>Average Days on Market</td>
<td>64</td>
<td>93</td>
</tr>
<tr>
<td>List/Sell Price Ratio</td>
<td>99.4%</td>
<td>97.2%</td>
</tr>
</tbody>
</table>

For the U.S. housing market, the National Association of Realtors (NAR) reported existing-home sales dropped in February 2021, after two months of growth. Only one region had month-over-month sales growth in February. However, all four major U.S. regions experienced year-over-year gains.

Total existing-home sales, (completed transactions that include single-family homes, townhomes, condominiums, and co-ops) decreased 6.6 percent from January to a seasonally adjusted annual rate of 6.22 million in February. Sales in total rose year-over-year, up 9.1 percent from a year ago (5.70 million in February 2020).
Nationally, home prices have remained strong during the pandemic. NAR reported the median existing-home price for all housing types in February was $313,000, up 15.8 percent from February 2020 ($270,400), as prices increased in every region. February's national price growth marks 108 straight months of year-over-year gains. All regions of the country experienced double-digit price growth from a year ago. The largest regional gains on a percentage basis were in the West (+20.6%), closely followed by the Northeast (+20.5%). The Midwest grew 14.2 percent and the South increased 13.6 percent.

A historically low level of housing inventory continues to drive housing prices. NAR notes housing inventory at the end of February totaled 1.03 million units, roughly equal to January, but down 29.5 percent from a year ago (1.46 million).

**Commercial Real Estate – Lower Delinquency Rates in February**

While many analysts focus on the residential housing market, it is also worthwhile to monitor trends in the commercial real estate market, especially for the impact of COVID-19 on the health of the sector. One source that conducts a monthly commercial real estate loan performance survey is the Mortgage Bankers Association (MBA).

MBA's March 4th report found delinquency rates for mortgages backed by commercial and multifamily properties decreased in February, representing a second straight month of improvement after a modest deterioration at the end of 2020. MBA reported the balances of commercial and multifamily mortgages that are not current decreased in February to its lowest level since April 2020. In all, 94.8 percent of outstanding loan balances were current, up from 94.3 percent in January.

Loans backed by lodging and retail properties, the sectors most directly affected by the pandemic, continue to see the greatest levels of stress. However, MBA reported month-over-month improvements in all major commercial loan types:
Connecticut Population Estimates

Based on U.S. Census Bureau estimates as of July 1, 2020, Connecticut’s population was 3,557,006 last year. This represented a small decline of 9,016 or 0.25 percent from the previous year’s estimate. Connecticut was one of sixteen states that lost population in 2020.

Looking at longer term trends, Connecticut was one of six states that lost population over the past decade. The chart below shows the states and changes since 2010:

<table>
<thead>
<tr>
<th>State</th>
<th>Change from 2010</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>West Virginia</td>
<td>-69,478</td>
<td>-3.75%</td>
</tr>
<tr>
<td>Illinois</td>
<td>-253,015</td>
<td>-1.97%</td>
</tr>
<tr>
<td>Connecticut</td>
<td>-22,167</td>
<td>-0.62%</td>
</tr>
<tr>
<td>Vermont</td>
<td>-2,539</td>
<td>-0.41%</td>
</tr>
<tr>
<td>New York</td>
<td>-63,180</td>
<td>-0.33%</td>
</tr>
<tr>
<td>Mississippi</td>
<td>-3,829</td>
<td>-0.13%</td>
</tr>
</tbody>
</table>

Source: Mortgage Bankers Association CREF Loan Performance Survey for February 2021

Stock Market – Strong March for DOW and S&P 500

As calendar 2020 came to end, the overall economy has not recovered to its pre-pandemic levels, but the stock market ended the year at or near record highs. The DOW gained 7.25 percent and ended the year at an all-time high. The NASDAQ, heavily composed of tech stocks, was the strongest performer and was up 43.64 percent. The S&P 500 rose to record levels as 2020 ended, rising 16.26 percent for the year.

January 2021 was a volatile month for stocks and the last week of the month ended on a down note. The markets generally recovered for most of February before hitting some turbulence in the last trading days of the month. In March, both the DOW and S&P have generally fared well, but the NASDAQ has experienced significant turbulence and was down for the month as of this writing.
Year-to-date, the DOW has increased 7.7 percent, the NASDAQ has gained 2.7 percent and the S&P is up 5.7 percent as of this writing. Just over a year ago, in late March, the stock market was in free fall as the pandemic-related shutdowns were taking place. As the charts below illustrate, all three indices have significant gains since then.
To give more perspective on the performance of the stock market over the longer term, the chart below shows the level of the DOW from 2007 to the present:

The performance of the stock market has a significant impact on the State of Connecticut’s revenues. In a typical year, estimated and final income tax payments account for approximately 25-30 percent of total state income tax receipts, but can be an extremely volatile revenue source.

FY 2020 results showed estimated and final payments were down a combined 13.2 percent compared with the previous year. Preliminary estimates for the first eight months of FY 2021 indicate better than expected results through February 2021. To date, combined estimated and final payments are up 10.3 percent above FY 2020’s level, with estimates up 14.7 percent and finals down 6.7 percent.

Reflecting this trend, the January 15th consensus revenue forecast reached by the Office of Policy and Management (OPM) and the Office of Fiscal Analysis (OFA) increased the projection for estimated and final income taxes by $294.4 million compared with the prior month. However, this category is still running behind the original targets in the FY 2021 budget plan by $298.2 million.
April is normally the key month for the final payments portion of the income tax. In a typical year, 60 to 70 percent of final payments are collected, representing over a billion dollars in revenue for the General Fund. This year, the Department of Revenue Services (DRS) has extending the filing and payment deadline for Connecticut individual income tax returns to Monday, May 17th. This change aligns Connecticut with the Federal filing deadline, which was postponed as part of the American Rescue Plan Act. In terms of timing, this revenue will still fall within FY 2021 – so that is not an issue. Rather the delay will make it more difficult to project revenues to year-end.

**Consumer Spending – a Weather-Related Drop in February**

Consumer spending is the main engine of the U.S. economy, accounting for more than two-thirds of total economic output.

On March 16th, the Commerce Department reported that U.S. advance retail sales were $561.7 billion in February 2021, a decrease of 3.0 percent from the previous month. Analysts noted the drop was larger than expected and likely reflected severe winter weather across the southern United States combined with the fading impact of the $600 stimulus payments sent out as part of the December federal relief bill. The percent change in January retail sales was revised up from 5.3 percent to 7.6 percent.
Declines in retail sales were broad-based in February, with almost every category showing decreases. Sporting goods & hobby shops dropped 7.5 percent, with furniture stores off 3.8 percent and building materials & garden suppliers down 3.0 percent. Motor vehicle dealers declined 4.2 percent and general merchandise stores decreased 5.4 percent. Other weak performers in February included clothing stores (-2.8%), non-store retailers (-3.4%), electronics & appliance stores (-1.9%) and restaurants & bars (-2.5%).

Receipts at gasoline stations rose 3.6 percent, but that was largely due to rising fuel prices.

So-called core retail sales dropped 3.5 percent in February, after surging 8.7 percent in January. This category excludes automobiles, gasoline, building materials and food services.

Economists expect a rebound in retail sales in the coming months as the nation continues to get vaccinated and another round of stimulus checks from the American Rescue Plan (ARP) makes their way into the economy.

**Consumer Debt and Savings Rates**

According to the Federal Reserve Bank of New York, aggregate household debt balances increased in the fourth quarter of 2020, driven in part by a sharp increase in mortgage originations. Total household debt increased by $206 billion (1.4 percent) to $14.56 trillion in the quarter ending December 31, 2020. The total debt balance is now $414 billion higher than it was at the end of 2019.

The report titled “Quarterly Report on Household Debt and Credit” noted mortgage balances—the largest component of household debt—surpassed $10 trillion in the fourth quarter, increasing by $182 billion to $10.04 trillion at the end of December. Outstanding student loans, the second largest category of household debt, totaled $1.56 trillion in the fourth quarter, a $9 billion increase from the third quarter. Auto loan balances increased by $14 billion in the fourth quarter, reaching $1.37 trillion. Balances on home equity lines of credit (HELOC) saw a $13 billion decline, the 16th
consecutive decrease since the fourth quarter of 2016, bringing the outstanding balance to $349 billion.

Credit card balances increased by $12 billion over the quarter, but they were still $108 billion lower than they had been at the end of 2019. The Federal Reserve reported this represents the largest year over year decline since the series began in 1999 and is consistent with continued weakness in consumer spending and revolving balance paydowns by card holders during the fourth quarter.

Personal Savings Rate

In its March 26th release, the Bureau of Economic Analysis (BEA) reported the personal-saving rate was 13.6 percent in February 2021, down from a revised 19.8 percent in January. The drop was expected by economists. BEA noted the February decline in personal income was more than accounted for by a decrease in government social benefits, a category that included the $600 economic impact payments that were distributed in January as part of the Coronavirus Response and Relief Supplemental Appropriations Act.
The personal savings rate is defined as personal saving as a percentage of disposable personal income. As seen in the chart below, the savings rate tends to increase during recessionary periods as consumers cut back on discretionary spending.

BEA reported that personal income decreased $1,516.6 billion (7.1 percent) in February and disposable personal income (DPI) decreased $1,532.3 billion (8.0 percent). Personal consumption expenditures (PCE) decreased $149.0 billion (1.0 percent).

In this same release, BEA illustrated changes in income and consumer spending patterns over the course of the pandemic. For example, large changes in personal income were based on the enactment and expiration of various government social benefits programs enacted through various relief acts.

BEA also pointed out a change in consumer spending patterns due to the pandemic, reflecting a shift to purchasing more goods and fewer services as sectors of the economy closed or limited
capacity. Categories with notable increases included food and beverages, motor vehicles and parts, and recreational goods and information processing equipment. Categories with notable decreases included food services and accommodations, recreation services, and transportation services.

**Consumer Confidence – Surges in March to a Post Pandemic High**

The U.S. consumer confidence index (CCI) is published by the Conference Board. The CCI looks at U.S. consumer’s views of current economic conditions and their expectations for the next six months. The index is closely watched by economists because consumer spending accounts nearly 70 percent of U.S. economic activity.

The Conference Board reported that the Consumer Confidence Index surged in March to its highest level in a year. The Index now stands at 109.7, up from February’s revised reading of 90.4. The result was better than expected; economists polled by The Wall Street Journal projected the indicator to come in at 96.8. The rise in confidence was driven by the increased number of vaccinations, paired with a new round of stimulus checks.

The Consumer Confidence Index is made up of two parts, including the Present Situation Index, which looks at current conditions and the Expectation Index, which measures consumers’ views of anticipated conditions for the next six months.

The Conference Board reported both improved significantly in March, which indicates consumer spending will likely continue to strengthen in the coming months. The Present Situation Index increased from 89.6 to 110.0, as consumers expressed more optimistic views of current business and labor market conditions. The Expectations Index, which is based on consumers’ short-term outlook for income, business, and the job market, rose from 90.9 last month to 109.6.
Lynn Franco, Senior Director of Economic Indicators at The Conference Board noted “Consumers’ renewed optimism boosted their purchasing intentions for homes, autos and several big-ticket items. However, concerns of inflation in the short-term rose, most likely due to rising prices at the pump, and may temper spending intentions in the months ahead.”

**Business and Economic Growth – 4th Quarter GDP**

According to a March 25th report from the Bureau of Economic Analysis (BEA), U.S. Real Gross Domestic Product (GDP) increased at an annual rate of 4.3 percent in the fourth quarter of 2020, according to BEA’s third estimate. This represents an upward revision from the 4.1 percent second estimate released last month.

BEA reported the fourth-quarter growth in real GDP reflected increases in exports, business investment, consumer spending, housing investment, and inventory investment. These categories were partially offset by a decrease in government spending, primarily related to state and local governments. Imports, a subtraction in the calculation of GDP, increased.

![Graph showing Real GDP: Percent change from preceding quarter](image)

For the full 2020 calendar year, BEA reported real GDP decreased 3.5 percent (from the 2019 annual level to the 2020 annual level). This compared with an increase of 2.2 percent in 2019. The drop in GDP primarily reflected decreases in consumer spending, exports, inventory investment, and business investment that were partially offset by increases in housing investment and government spending. Imports, a subtraction in the calculation of GDP, decreased.

In the same release, BEA reported on changes in 2020 real GDP by industry. Not surprisingly, the largest declines were in service sector industries, including accommodation & food services, arts, entertainment & recreation and health care and social assistance.
State Level GDP Results for 4th Quarter and the Full 2020 Year

On March 26th, BEA reported updated state level GDP data. Real gross domestic product (GDP) increased in all 50 states and the District of Columbia in the fourth quarter of 2020, as real GDP for the nation increased at an annual rate of 4.3 percent. The percent change in real GDP in the fourth quarter ranged from 9.9 percent in South Dakota to 1.2 percent in the District of Columbia.
Connecticut fared better than both the national and the New England regional averages, with its GDP growing 7.0 percent, which ranked 4th in the U.S. overall. The Connecticut industries experiencing the largest gains on a percentage basis were finance & insurance (+2.27%), nondurable goods manufacturing (+0.70%) and health care & social assistance (+0.66%).

**Full Year State GDP Results for 2020**

For the full year in 2020, BEA reported real GDP decreased in all 50 states and the District of Columbia. The percent change in real GDP ranged from -0.1 percent in Utah to -8.0 percent in Hawaii. Connecticut ranked 34th overall for 2020 and experienced a decline of 4.1 percent, a larger GDP decrease than either the national average of -3.5 percent or the New England regional average of -4.0 percent.

**Durable Goods**

According to a March 24th report by the U.S. Department of Commerce, new orders for manufactured durable goods decreased $2.9 billion or 1.1 percent in January to $254.0. Economists had not expected a decline after nine consecutive months of increases but pointed to severe winter storms in Texas and other southern U.S states for the drop. January’s increase in durable goods orders was 3.5 percent.

The decrease in durable goods orders was widespread in February led by transportation, which was down $1.3 billion or 1.6 percent to $83.6 billion. New orders of automobiles were down 8.7 percent, which analysts attributed to a global shortage of semiconductor chips. Defense aircraft orders decreased by 3.7 percent in February. The one bright spot in this sector was non-defense aircraft, which was up 103.3 percent. CNBC reported Boeing received 82 aircraft orders in February compared to only four in January.

Orders for so called core capital goods decreased 0.8 percent in February, after a 0.6 percent rise in the previous month. Core capital goods are defined as non-defense capital goods excluding aircraft,
which is considered a proxy for business spending. Looking forward, economists believe the combination of a new federal stimulus bill, warmer weather, and the continuing vaccination roll-out all point to a growing economy in the coming months.